

United States Department of State



Washington, D.C. 20520

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Dear Mr. Wright:

We seek expedited clearance by the Office of Management and Budget of the enclosed draft testimony on S. 1527, the Civil Service Pension Reform Act, scheduled for presentation to the Senate Governmental Affairs Committee on September 9, by the Director General of the Foreign Service and Director of Personnel, Ambassador George S. Vest.

The proposed testimony supports the general thrust of the Stevens-Roth bill, and requests the Committee to consider amending the bill to include the Foreign Service as a special category of employees. In that vein, we believe that the Foreign Service should retain its current retirement eligibility threshold of age 50 with 20 years service.

Requests for changes in the enclosed draft, or for supporting information, may be made by telephone to William I. Bacchus or Torrey S. Whitman of the Director General's Policy and Coordination Staff, on 632-5157.

Thank you for your consideration of this testimony.

With best wishes,

Sincerely,

William L. Ball, III
Assistant Secretary
Legislative and Intergovernmental Affairs

Enclosure:

Draft Statement on S. 1527

The Honorable
Joseph R. Wright, Jr.,
Acting Director,
Office of Management and Budget.

DRAFT

STATEMENT OF
GEORGE S. VEST, DIRECTOR GENERAL OF THE FOREIGN SERVICE
AND DIRECTOR OF PERSONNEL, DEPARTMENT OF STATE
BEFORE THE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
ON S. 1527, THE CIVIL SERVICE PENSION REFORM ACT,
SEPTEMBER 9, 1985

The Secretary of State has asked me to represent him at these hearings on the design of a retirement system for Federal employees covered by Social Security. We appreciate this opportunity very much. Retirement provisions are essential to any personnel system, and are especially so for the Department of State which has employees under two statutorily distinct retirement systems--Civil Service and Foreign Service.

We believe that S. 1527, the Stevens-Roth bill, is a constructive effort to make the new Federal retirement system both fair and equitable to participants and financially sound as well. The three-tiered structure of benefits should accommodate the retirement planning goals of a wide variety of

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Federal employees with different career patterns. The bill's provisions for a thrift plan with employer matching of employee contributions are a particularly attractive feature. Thrift plans are, of course, an established part of many private sector retirement plans. It is our belief that offering access to a thrift plan may make Federal employees more mobile, and generally encourage more movement back and forth between private and public sector employment. Such a development would be beneficial to all concerned. Moreover, the thrift plan could give a boost to capital formation and thereby aid in maintaining and expanding the national economy.

Our overall impression of the bill is thus very positive. In fact, my principal reason for being here today is to request that this Committee consider including Foreign Service personnel under Stevens-Roth.

The basic framework of the bill will be beneficial to both Foreign Service and Civil Service employees of the Department of State. Since we have appreciable numbers of employees who convert from the Civil Service to the Foreign Service in mid-career, and vice-versa, the Department of State has a management interest in seeing a similar retirement structure for each personnel system. Employees currently can transfer either to or from the Foreign Service with no major effect on

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their entitlement to retirement benefits; we would not be well served by a Foreign Service system structured significantly differently from the general Civil Service system.

In looking at the Stevens-Roth bill, we believe that the Foreign Service clearly should be regarded as a "special category" of employment, as are air traffic controllers, firefighters, and law enforcement officers. I would note that the Foreign Service retirement system, like those of the other special groups, allows optional retirement earlier and with fewer years of service than the existing Civil Service system. In our case, Foreign Service employees may retire at age 50 with 20 or more years of service.

There are two overriding and related reasons for these existing Foreign Service provisions. First, we need to retire mandatorily the less competitive, as determined by management, to ensure that the highest standard of performance in foreign policy analysis and overseas representation is guaranteed. Foreign Service personnel are subjected to increasingly rigorous competition with their peers in the course of their careers, with the result that some employees are retired involuntarily each year, for failure to be promoted to the next higher grade or class within a specified time period. This "time-in-class" limitation requires officers who are performing

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competently at their current grade level, but who are not sufficiently competitive to advance to higher levels to be retired.

Second, we must provide through early retirement an exit, other than for substandard performance, for those who are no longer able to serve abroad. The Foreign Service is an arduous and dangerous life; those who, after a long and valued career, cannot continue to meet those challenges should be able to retire voluntarily, without being selected out for substandard performance.

Our workforce analyses indicate that an appreciable number of those potentially subject to retirement for "time-in-class", both now and into the future, will be between the ages of 50 and 55. These employees typically would have about 25 years of service. The Stevens-Roth special category rules would allow such employees to receive an immediate annuity, but the income replacement at time of separation would be quite small compared to the current situation: an involuntary retiree aged 50 with 25 years service would receive an annuity of about 18 percent of his salary under Stevens-Roth, as opposed to about 50 percent under the current system.

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I do not believe that we could continue to operate involuntary retirement for time-in-class under such conditions. Frankly speaking, such a small benefit would be perceived as harsh and inequitable, and managers and supervisors would be likely to change their personnel management decisions in order to shield employees from selection out, thereby defeating the basic purpose of the selection-out mechanism.

It is necessary in our view, then, to give some special attention to employees who retire before the age of 55. We believe that the Foreign Service should retain its existing retirement threshold, allowing retirement without annuity reduction at age 50 with 20 years service. This age and service requirement conforms to that which has been proposed by OPM Director Horner for all special categories of employees.

It might also be desirable to consider allowing agencies to pay the supplemental payment in lieu of Social Security to all special category employees from the time of retirement, rather than solely from age 55 to age 62. I believe that the provision of one or more of these income supplements would allow the Foreign Service to harmonize the new retirement system with its existing selection-out system. I hope that we can work together on these special points of concern.

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The Committee should also be aware that the Foreign Service system differs from the Civil Service system in several other respects, such as its treatment of the rights of former spouses to annuities, pay provisions for reemployed annuitants, and certain benefits for foreign national employees. Each of these existing differences would need to be addressed in development of a final bill.

I would draw your attention to one other feature of the Foreign Service Retirement System: the Department of State currently administers the system, rather than the Office of Personnel Management, and a separate retirement trust fund is maintained for the Foreign Service by the Department of the Treasury. Presumably the separate fund will continue in existence for those pre-1984 Foreign Service employees who do not elect to transfer into the new system, and the Department will continue to administer the Foreign Service system at least for those employees.

We believe that the most sensible arrangement would be to maintain a separate trust fund for Foreign Service appointees under the new system, as well. We already have an expert and efficient retirement and disability staff in place, fully capable of managing the new system as well as the current one. It has several times been viewed as a model for the rest of

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Government, including by the Congress. This staff handles retirement and disability claims not just for the Department of State, but for all five agencies using Foreign Service appointing authorities.

Transferring retirement responsibility to the Office of Personnel Management and disability claims to private insurers for new system employees would probably require additional resources without any fully corresponding savings for the Department. Moreover, the division of responsibility between the Department and OPM as regards verifying service, financial accounting, and retirement counseling for transferees from the old to the new system would create a bureaucratic nightmare that would serve no one's interest. Similar problems would arise in trying to transfer disability responsibility, with the added problem of finding private insurers versed in assessing disabilities arising from diseases or environmentally induced illnesses arising from service worldwide. We do now have and will continue to have a medical staff that includes specialists in these areas, whose duties now include making disability determinations. All in all, we believe that it would be far superior to preserve the existing retirement management arrangements for the Foreign Service system.

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I have dwelt at some length on special treatments needed to make the Stevens-Roth retirement structure mesh with the Foreign Service personnel structure. But let me emphasize that I believe the effort to be well worthwhile. The world has changed immeasurably since Federal retirement legislation was put in place; it is now time to bring our treatment of retirement in line with those changes in the world. We must recognize that our young employees of today, those after all who have the most to gain or lose from this legislation, have a different outlook, a different set of assumptions about career mobility and change than the employees of two generations ago for whom the existing systems were designed. The bill under consideration by this committee does recognize that important fact. We believe that the bill will benefit the government, the employees, and the taxpayers of this country and we support it.